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M E M O R A N D U M

Department of Financial Services

To: Milpitas Redevelopment Agency Board

Through: Tom Williams, Agency Director, for Agency Board Action

From: Emma C. Karlen, Director of Financial Services

Subject: **Milpitas Redevelopment Agency Fiscal Year 2009-2010 Annual Report**

Date: October 21, 2010

Background:
In compliance with the Community Redevelopment Law and the Milpitas Redevelopment Agency ("Agency")'s bylaws, the Milpitas Redevelopment Agency Fiscal Year 2009-2010 Annual Report ("Annual Report") is submitted for your review and acceptance.

Pursuant to the Health and Safety Code Section 33080.1, the Agency is also required to report the following activities:

1. A description of the agency's activities in the previous fiscal year that removed affordable housing units and displaced low-income households from their dwelling units.

2. A status report on all the loans made by the Agency that are over $50,000 or more, that in the previous fiscal year were in default, or not in compliance with the terms of the loan approved by the Agency.

3. A description of the total number and nature of the properties that the Agency owns and those properties that the Agency has acquired in the previous fiscal year.

In the previous fiscal year, the Agency did not engage in any activities that removed affordable housing units and displaced low-income households from their dwelling units. There was no outstanding loan over $50,000 that was in default or non-compliant with the terms of the loans approved by the Agency.

The Agency owns vacant land that it purchased for $6.9 million from the Santa Clara Valley Transportation Authority in Fiscal Year 2000-01. The land is being held for future development projects and is intended for resale. In Fiscal Year 2004-05, the Agency bought eight parcels of land through a Purchase and Sale Agreement from the City for redevelopment purposes. Detail for that transaction is discussed in the Financial Activities Section of this report

In November 2009 the Agency purchased property along South Main Street in the amount of $12.4 million. The property is intended to be sold to a developer in the near future to develop housing in phases. The first phase development will consist of 180 units of "Continuum of Care

Senior Housing" of which 63 units will be for very low and low income households. The second phase development will consist of 207 units of family housing at market rate.

In Fiscal Year 2009-10, the Agency used the 20% Housing Set-aside Fund to purchase nine affordable housing units located in the Parc Place, Parc Metropolitan, KB Homes and Centria developments. Due to downturn of the housing market, the sellers were unable to locate qualified buyers who would purchase these units with the affordable housing restriction. The purchase by the Agency would allow additional time to find qualified buyers and not lose the affordable housing restriction. As of June 30, 2010, including one unit that was bought in fiscal year 2008-09, the Agency purchased ten housing units for $3,121,068 including closing costs. Two housing units were subsequently sold in FY 2009-10 to low-income households and five units in the Parc Metro development were rented to low-income households.

The State Controller requires the Agency to file the Annual Report in a standard format in order for them to extract the data for comparison purposes. The State Controller's Report will be filed and transmitted electronically to the State Controller before December 31, 2010.

<u>Community Redevelopment Law:</u>
Redevelopment financial considerations are cited in various sections of the Community Redevelopment Law (Health & Safety Code Section 33000 et seq.) and are incorporated in the Redevelopment Plan of Project Area No. 1 and the Great Mall Project Area. A summary of the major points affecting local redevelopment financing is as follows:

1. Tax increment revenue accrues to the Agency from Project Area No. 1, only so long as the Agency has debt to substantiate the needs. The Great Mall Project Area does not generate any tax increment revenue.

2. Tax increment revenue may not be used for maintenance or operating costs other than what is reasonably necessary to pay direct administration and overhead expenses.

3. Agency is required to set aside 20% of the tax increment revenues generated and received from Project Area No. 1 in a special Low and Moderate Income Housing Fund.

The Community Redevelopment Law Reform Act of 1993 was enacted with the passage of AB1290 and became effective January 1, 1994. Sections of the Community Redevelopment Law (CRL) were changed to narrow the definition of blight, to set time limits for project areas and for indebtedness; to eliminate future sales tax sharing agreements; to strengthen redevelopment agencies' commitment to provide affordable housing; to eliminate future negotiated pass-through agreements with other agencies by requiring tax increments sharing by statue; and to require agencies to adopt five-year implementation plans, linking blight with the objectives of the programs and expenditures of agencies.

Redevelopment Activities:
Milpitas had two redevelopment project areas: Project Area No. 1 and the Great Mall Redevelopment Project Area. Project Area No. 1 is the only project area that generates tax increment revenue and hence, has tax allocation bonding capacity. The Great Mall Project Area was adopted in 1993 and does not generate tax increment revenue. In fiscal 2007, the two projects were merged to provide more flexibility in allocating the tax increment revenue to revitalize both project areas. However, the merger does not affect the respective expiration dates for each redevelopment plan. In Fiscal Year 2008-09, the redevelopment plan for the Great Mall Project Area was amended to extend the Plan expiration date from Nov. 2, 2010 to Nov. 2, 2033. The redevelopment plan for the Project Area No. 1 has different expiration dates for its amendment areas, as will be discussed in the Financial Activities Section of this report.

With regard to the Great Mall Redevelopment Project, a total of approximately 150 acres have been fully developed which includes an enclosed shopping mall and 450 housing units. The Simon Group, the new owner of the Great Mall, continued its efforts to attract new anchor tenants. Forever 21, a clothing store was relocated within the Great Mall after undergoing major tenant improvement for expansion. The Great Mall is over 90% occupied which is considered a success among the retail industry. However, without additional time, the Agency's redevelopment efforts may be impaired because existing freeway signage would not be available to support the Project and the Agency also needs a longer period of time to maintain development standards and controls to assure Project Area stabilization.

Project Area No. 1 has five project area components. The original Project Area, consists of 577 acres, was formed in 1976. Amendment No. 1 in 1979 added 483 acres to the project area and Amendment No. 2 in 1982 added another 479 acres. In 2003, the Agency amended the Redevelopment Plan through Amendment No. 8 to add 691 acres in the Midtown Area to Project Area No. 1.

In 2010, the Agency amended the Redevelopment Plan through Amendment No. 13 to 1) extend by 10 years the effectiveness time limit and time period to repay debt/collect tax increment for the Amendment Areas; 2) repeal the debt establishment limit for the Amendment Areas; 3) increase the tax increment limit and bonded indebtedness limit and exclude the Midtown Added Area from the tax increment limit; 4) add projects and facilities to the list of eligible projects and facilities the Agency may fund; 5) reinstate eminent domain over nonresidential uses in the Amendment Areas; and 6) add territory totaling approximately 600 acres.

The Original Project Area No. 1 provided over 740,000 square feet of commercial space in the Town Center plus two hotels totaling 408 rooms and 78,000 square feet in Foothill Square. A 62,000 square foot City Hall is located within this area. The development of 65 new single-family homes behind the Town Center by Shapell is under construction in phases. Most of the new Town Center units have already been sold. With the Agency's assistance, at least 20% of these homes will be available at affordable housing costs.

With regard to Project Area No. 1, Amendment Area 1, there is about 3.2 million square feet of industrial space in the Oak Creek Business Park, as well as two hotels totaling 432 rooms. A 19,000 square foot Main Fire Station is located within this area. In fiscal year 2005, the Agency facilitated the development of KB Homes by acquisition of land from the County pursuant to a

Purchase and Sale Agreement. The KB Homes development consists of 683 housing units that includes single-family detached homes, condominiums and town homes were completed. Within this Amendment Area 1 and adjacent to the KB Homes is vacant County land that was leased to two car dealerships. A Toyota car dealership and a Honda car dealership opened in November 2007 and October 2009 respectively.

With regard to Project Area No. 1, Amendment No. 2, four million square feet of building area has been completed in the Milpitas Business Park, including four hotels totaling 642 rooms, two shopping centers totaling 250,000 square feet, a 700 child day care center and a Cisco campus of 1.1 million square feet. Several major high-tech companies have their headquarters in this area, including Linear Technology, SanDisk and KLA-Tencor.

In 2003, 691 acres in the Midtown Area were added to Project Area No. 1. The Redevelopment Plan proposes to implement new commercial, residential development and transportation programs to further enhance circulation and access to the Midtown Area. Construction of a new 60,000 square foot library on the former Senior Center site on North Main Street was completed. Major infrastructure improvements were also completed on N. Main Street.

With the Agency's assistance, Mid-Peninsula Housing Coalition, a non-profit housing developer, developed a 103-unit senior housing at the historic site of Devries/Smith House. All of the units are affordable to low-income seniors. In addition, the Agency assisted three separate development activities in the Midtown area that will add over 380 housing units with at least 20% of those units at affordable housing costs. One of the developments is a residential development consisted of 137 condominium units developed by D.R. Horton. 26 of these units will be provided at affordable housing costs for very low, low, and moderate-income households. The Agency's assistance included $370,000 grant for the developer and $770,000 silent second loans for first time home buyers. Another development is a rental housing development by Mil Aspen Associates consisted of 100 units available for extremely low and very-low income households. The Agency's assistance will be in the form of $2.3 million low interest rate loan to the developer. The third development by Western Pacific Housing located at South Main near Montague Expressway, consisted of 147 townhomes, is currently under construction. 9 of these units will be provided at affordable housing costs for very low income households. The Agency's assistance will include approximately $1.2 million silent second loans for first time home buyers.

The Agency also entered into a Disposition and Development Agreement ("DDA") with the County to enable the County to develop a 57,000 square foot primary care health center on an adjacent parcel south of the Senior Housing project and a parking structure across the street from the future Health Center. As part of the DDA, the Agency sold one of the eight parcels that it acquired from the City to the County for the development of the health center. In addition, the Agency leased another parcel of land to the County for the construction of the parking garage.

In the southern part of the Project Area, the vision for this area includes high density housing within walking distance to light rail and BART to support the public investment in mass transit and a mixture of housing, shopping, employment, entertainment and recreational opportunities. The Agency Board adopted the Transit Area Specific Plan that provides development concept for the area surrounding the future Montague/Capitol BART station and two VTA Light Rail

Stations. In February 2009, the City council approved the first high density residential project in this area. The project consisted of 639 housing units will be developed by Citation Homes. However, there is no estimated construction start date yet.

With regard to Project Area No. 1, Amendment No. 13, the Agency added approximately 600 acres in 2010. The added area encompasses three areas including 446 acres within the Town Center Business Park, a small 13 acre residential area near the intersection of East Calaveras Boulevard and Temple Drive, a second small 47-acre residential area with limited commercial along Interstate 680 between Calaveras Boulevard and Edsel Drive and 90 acres of other right-of-way connecting the areas. The residential areas are primarily developed with multiple-family residential rental buildings built in the 1960s and have been the focus of City code enforcement and police enforcement. The goal is to use Redevelopment funding as a tool to facilitate lasting improvement to the area through a combination of loans for residential rehabilitation, additional code enforcement activity and public improvements to make the areas more desirable for investment and reduce crimes.

The Town Center Business Park has increased vacancies due in part to the aging industrial building stock which has become obsolete for contemporary users. Redevelopment funding is being considered for this area to assist property owners in upgrading obsolete industrial buildings for contemporary use. The Agency may participate in the assembly of small sites for reuse and fund infrastructure improvements.

Besides the City Hall and the Main Fire Station, public facilities in the combined project areas include a 60,000 square foot Library, a 22,000 square foot Senior Center, 19,000 square foot Community Center, Fire Stations No. 3 and 4, seven City Parks, an LRT Park and Ride, and the Elmwood Correctional Facility. Other public facilities that are close by and provide benefits to Project Area No. 1 are the Corporation Yard and Police Facility. The Corporation Yard and Police Building, financed by the Agency, were completed and occupied in 1991. The City, having acquired from the Milpitas Unified School District 34 acres surplus Ayer High School Site, has used redevelopment financing to benefit the project area with additional recreational facilities and open space in a Sports Center.

Financial Activities:
Redevelopment Project Area No. 1 was adopted in five phases: (1) Original Project Area; (2) Amendment No. 1 or Oak Creek; (3) Amendment No. 2 or Peery-Arrillaga (Milpitas Business Park), (4) Midtown Area, and (5) Amendment No. 13 or Town Center Business Park and two non-contiguous residential areas. All five phases are integrated into one project area. The increases in valuation have produced over $553 million gross tax increment revenue for use of the Milpitas Redevelopment Agency to date. Annual gross tax increment revenue in 2009-2010 was $40.9 million.

The Original Project Area, sometimes referred to as Town Center, has provided over $193 million of tax increment revenues, which have been used and are being used for implementation of redevelopment in Milpitas. Tax increment revenues have risen from about $144,000 in 1977-78 to almost $12.6 million in 2009-2010. The Original Project Area will terminate in 2029.

Amendment No. 1, or Oak Creek, has provided approximately $13.8 million of tax increment revenue in 2009-2010. This area has generated approximately $195 million of tax increment revenues for implementation of redevelopment in Milpitas. Amendment No. 1 will terminate in 2032.

Amendment No. 2, or Peery-Arrillaga (Milpitas Business Park) has provided approximately $13.4 million tax increment revenue in 2009-2010. This amendment has produced approximately $160 million of tax increment revenues for redevelopment in Milpitas. Amendment No. 2 will terminate in 2035.

The Midtown Area was added to the Project Area No. 1 in 2003. This amendment generated about $1.1 million tax increment revenue in 2009-10 and approximately $3.9 million in total. The Midtown Area will terminate in 2034.

The Amendment No. 13 or Town Center Business Park and two non-contiguous residential areas, that was added in 2010 has not generated any tax increment revenue yet. This amendment area will terminate in 2040.

In compliance with AB1290, the Agency commenced statutory pass-through payments in 2001-2002 to other taxing entities in the Project Area. Total pass-through payments made in fiscal year 2010 was about $3.3 million. Cumulatively, the Agency made almost $12 million pass-through payments to other taxing entities within the Project Area since fiscal year 2002.

In fiscal year 2004, the Agency issued $200 million in Tax Allocation Bonds to refund previously issued 1997 and 2000 Tax Allocation Bonds and to provide funding for the new Library, Parking garage, Senior Center, County land purchase down payment and other infrastructure construction projects that benefit the Project Area. Approximately $174.2 million of the 2003 Tax Allocation Bonds remains outstanding. The final maturity on the 2003 Tax Allocation Bonds is in the year 2032.

In fiscal year 2005, the Agency entered into an Agreement with the City for the purchase of eight parcels of land which are located in the Project Area. However, the terms of the purchase were not finalized until August 2007 under the First Amendment to Agreement of Purchase and Sale.

Under the terms of the Amended Agreement, the purchase price of the parcels is $20.4 million. The Agency will repay in 40 years. Any unpaid balance will bear simple interest at 10%. At June 30, 2010 the advance from the City including principal and accrued interest was approximately $23.2 million.

The Agency also entered into a non-interest bearing Installment Purchase Agreement with the County for two parcels of land comprising 35 acres surrounding the County Correctional Facility for $135 million payable over eighteen years. The Agency has a recorded liability of $36.9 million at June 30, 2010, representing the present value of future payments discounted at 5% interest rate.

Conclusion:

The Milpitas Redevelopment Agency in entering its 35th year of operation has provided over $553 million for the City's capital improvements and affordable housing assistance. Redevelopment as a financing tool has provided many community amenities. These community amenities include: Terrace Gardens, a modern corporation yard, police facility, library, fire stations, a Senior Center and the City Hall. The Agency helped the School District by acquiring the Ayer site, preserved valuable open space and renovated the Sports Center to provide recreation opportunities and programming for the community. The Agency has, and will continue to provide for major utility and transportation infrastructure, elimination of blight, and economic stability for the community while at the same time fulfills its requirements for the provision of low and moderate-income housing.